

U.S. TRADE POLICY AND THE TRADING SYSTEM

Prepared for Delivery

Ambassador Charlene Barshefsky
U.S. Trade Representative

School of Advanced International Studies
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Thank you very much. I am very pleased to be here with Dean Wolfowitz, for so many years a leading light in American foreign affairs and national security. Equally, I am very happy to meet and exchange ideas with so many of the young men and women who will guide our country as activists, analysts and policymakers in this new century.

This morning, we are proud to release President Clinton's "Trade Policy Agenda" report to Congress. The report looks back on the record of the past seven years; and ahead to lay out the trade agenda at the beginning of a new century. As Congress has directed, we also include in this report a special five-year review of our work at the WTO. Today I would like to highlight this report with some thoughts on the trading system, its importance to us historically and today; and its role as we look ahead to a 21st-century world economy not only more open and prosperous but more just and sustainable.

AMERICAN TRADE PHILOSOPHY

Our work at the WTO, to begin with, has rested upon a foundation laid down under President Franklin Roosevelt of American commitment to open markets, freer trade, and the rule of law in world commerce.

Americans have taken this position, in one sense, as a matter of clear economic logic. Open markets abroad offer us opportunities to export, and exports are essential to a strong domestic economy. Almost 80% of world economic consumption, and 96% of the world's population, is outside the U.S.; foreign tariffs and other trade barriers are substantially higher than ours. As markets open more fully to Americans, farmers will face less risk of gluts that drive down prices, workers will see opportunities for higher-wage employment, and firms will gain economies of scale that help them invest in plants, jobs, and research.

Open markets at home are equally important. Imports create the choice, price and competition that raise family living standards -- for all families, but most especially the poor -- and help to dampen inflation. Accompanied by commitment to education and job training, imports help American workers specialize in the most technologically sophisticated and financially rewarding fields. And they give businesses access to inputs -- raw materials, parts, business

equipment -- that reduce costs and thus improve efficiency and competitiveness.

But our trade policy has had implications going beyond economics to broader aspirations; and to understand why we must trace today's World Trade Organization back to its beginnings.

DEVELOPMENT OF THE TRADING SYSTEM

The WTO has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the lessons President Truman and his counterparts in 22 other nations -- the World War II Allies, a number of Latin American countries, a few Asian nations -- drew from personal experience in Depression and war.

In the 1930s, they had seen a cycle of trade protection and retaliation, beginning with the Smoot-Hawley Tariff in the United States and continued through European colonial preference schemes, which had cut global trade nearly 70%. Within a few years, the world was transformed into something like a series of island economies, deepening the Depression, intensifying political tensions, and contributing to the political upheavals of the era.

Eighteen years later, Truman and his colleagues believed that by reopening world markets they could restore economic health and raise living standards; and that, together with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen. Thus the foundation of the GATT was one in a series of related policies and institutions that have served us well for nearly six decades:

- Collective security, reflected by the United Nations, NATO and our alliances with Japan, South Korea, and other Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

Together, these made up a coherent vision of a peaceful and open world; a vision which over half a century of experience has fully vindicated.

Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era. We brought down barriers between the Allied nations, to the point where over a billion dollars worth of goods and services crosses the Atlantic every day. We brought Japan and Germany back into the world economy; responded to the end of colonialism; and have now turned to the great task of support for reform and integration in Russia, China, Central and Eastern Europe, Indochina and other nations breaking with strict communist planning to return to the market.

If we take the long view, we see that the opening of world markets has helped to foster a

fifty-year economic boom. Since the foundation of the GATT, the world economy has grown six-fold; per capita income nearly tripled and hundreds of millions of families escaped from poverty. And social progress in this era reflects this growth. As families and governments have gained the resources to improve health, invest in education, protect the environment and advance other social goals, life has improved nearly everywhere in the world: since the 1950s, world life expectancy has grown by twenty years; infant mortality dropped by two-thirds; famine receded from all but the most remote or misgoverned corners of the world.

Weighed in the most profoundly important scale of all, the trading system, together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, has helped to make the world substantially more prosperous, stable and peaceful than before.

THE WORLD TRADE ORGANIZATION

This is the legacy we inherited seven years ago. It is the legacy we built upon through the Uruguay Round of negotiations to create a trading system that does more to open markets; to strengthen the rule of law; to create opportunities for technological advance; to support reform in nations moving away from communist planning; and to make our people more prosperous and secure. That is today's World Trade Organization; it is an institution of fundamental and irreplaceable value for the United States; and let me touch upon each of these areas for a moment.

1. Opening World Markets

To begin with, through completion of the Uruguay Round -- a monumental negotiation lasting eight years, and suffering three breakdowns before its completion in 1994 -- we took a GATT system less and less able to meet the demands of a more integrated, technologically progressive world; and fundamentally reformed, updated and modernized it to create the WTO.

Thus, the Uruguay Round continued a tradition of opening markets and creating opportunity worldwide. It eliminated quotas and cut industrial tariffs by a third. It broadened the commitments of its members to areas the GATT covered only partially or not at all, notably agriculture, services and intellectual property rights.

And the work is not done: as commitments phase in, we are moving on to the negotiating agenda of the next decade. Its core elements are before us, in the agreement last month to open global talks on agriculture and services. These are the sectors in which markets remain most distorted and closed, and in which the opening of trade will mean perhaps most to future prospects for rising living standards, technological progress, and sustainable development. And in each of them we have set ambitious goals.

Beyond these negotiations, we have pressing needs to address market access concerns in industrial products, electronic commerce, trade facilitation, and other topics as well. One

especially important, and universally recognized, need is for the WTO's wealthier and more advanced members to open their markets more fully to the products of the poorest and least developed nations, and for the WTO as a whole to ensure that these countries can take full advantage of existing market access opportunities, and to fully assert their rights and interests in the policy work of the system. Thus, while there are a number of different options for proceeding with trade liberalization beyond the agricultural and services sectors, we are continuing our work to build consensus for a new, more broadly based Round.

To build international consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink their negotiating positions, focus more fully on the shared benefits of the trading system in creating new sources of growth and opportunity and the shared responsibilities of reaching these goals, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, and expect our trading partners to do the same.

2. Strengthening the Rule of Law

At the same time, by creating the WTO we strengthened the rule of law. We took a GATT system with a limited set of essentially unenforceable rules that applied differently to different members, and created a more comprehensive set of rules which are enforceable and apply to every single member. Together with this are an array of oversight bodies which we use to monitor the commitments our trading partners have made, identify potential problems, and offer technical assistance or other expertise when necessary to help ensure compliance and implementation of commitments.

And we also created a strong dispute settlement mechanism which we have used in 49 cases to preserve and enforce our rights. The cases in which we have been involved, of course, have helped us to advance concrete American trade interests. But beyond this, they have helped us to confirm basic principles: that all WTO members must keep their commitments; that trade policies must be nondiscriminatory; and that we and other trading nations have a fundamental right to set the highest standards of environmental protection and consumer safety.

3. Building The 21st-Century Economy

In the WTO we also created a permanent forum in which governments find new areas of shared interest and benefit. And we have used this in the past five years to reach four agreements of central importance to technological progress, growth and rising living standards in the 21st century. These are:

- The Information Technology Agreement, eliminating tariffs on \$600 billion worth of trade in high-tech manufactured goods such as computers, semiconductors, computer equipment, integrated circuits and telecom equipment, and so forth, on which we are now building toward an ITA II with still broader product coverage;

- The Agreement on Basic Telecommunications, opening world markets in a sector dominated for 60 years by monopolies and promoting pro-competitive regulatory principles. In just two years, it has eroded the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce, helping to bring down rates to levels as low as 10 to 20 cents per minute, for calls between the U.S. and countries such as Japan and Mexico;
- The Financial Services Agreement, covering nearly \$60 trillion in financial transactions -- a figure half again as great as total world GDP -- per year, which has already helped U.S. services suppliers expand commercial operations and find new market opportunities through both ownership of or investment in foreign banking institutions, brokerage and insurance sectors, and through cross-border trade.
- And the WTO's commitment in 1998 to "duty-free cyberspace," helping to ensure that electronic commerce develops freely as a means to promote trade, strengthen the power of consumers, and help the most impoverished and remote regions take advantage of world markets.

4. End of the Cold War

The WTO has also been of cardinal importance in our response to one of the greatest political challenges of the present era. That is the end of the Cold War, with the opportunities it creates for a more stable and enduring peace; and the questions it raises about the future course of some of the world's greatest and oldest nations.

This is a task for our time whose consequences will be as great as those of the GATT's reintegration of Japan and Germany in the 1950s. Ten years after the fall of the Berlin Wall, nations which have completed the transition from communist planning systems to the market -- Poland, Hungary, the Czech Republic -- attest that the open markets, economic engagement with the outside world, transparency, and rule of law WTO membership promotes are also those which help reform succeed at home. As Poland's Trade Minister has said:

"Poland's accession to GATT in 1967 helped us to retain institutional links with the international marketplace at the time when my country was still subjected to a political and economic system alien to the aspirations and entrepreneurial spirit of its people... Our participation in the GATT/WTO framework has helped to consolidate the reform."

This is work of great complexity: the transition economies have chosen different paths, some emphasizing political change and others delaying or hoping to avoid it. Thus it is a task which proceeds slowly and with occasional setbacks. But it is also achievable and well underway. Since its creation in 1995, the WTO has admitted six transition economies: Slovenia, Bulgaria, Mongolia, the Kyrgyz Republic, Latvia, and -- ten years to the day after the fall of the Berlin Wall -- Estonia. Georgia will enter soon; and the accessions of Albania and Croatia are almost

complete. We have made significant progress with Armenia, Lithuania and Moldova; and held fruitful discussions with Russia and Ukraine as well.

And in our recent bilateral agreement on WTO accession with China, we have an opportunity of vast consequence for the world's future peace and stability. This is a comprehensive agreement covering agriculture, services, industrial goods, unfair trade and investment practices and other rules, with specific and enforceable commitments that phase in rapidly in each area. Together with extension of permanent Normal Trade Relations, it will open China's markets in a way unprecedented since the 1940s, creating new opportunities for American farmers and businesses as it strengthens our guarantees of fair trade. And perhaps still more important is its potential beyond trade.

Within China, the WTO accession will support reform. China's commitments will alter policies dating to the earliest years of the communist era. They give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the 1949 revolution; but rather the economic opening to the world and ultimately development of the rule of law inherent in the initiative President Truman and his colleagues began a year earlier.

And internationally, the WTO accession will deepen and speed a process of integration that has helped China become a more integrated, responsible member of the Pacific community. Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. At the same time, China's economic reforms have helped to move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and as a member of the UN Security Council. And the WTO accession will be the most important step in this process in twenty years.

5. Prosperity and Economic Security

Finally, of course, the WTO has been an institution of great practical economic benefit to Americans and to our trading partners.

We see this in our own economy, as the opening of world markets has helped to catalyze a 55% expansion of American goods and services exports since 1992, to a record total of \$958.5 billion last year, as our two-way trade grew by nearly \$1 trillion. Together with -- and inseparable from -- domestic policies including fiscal discipline and investment in education and job training, the opening of world markets has contributed to a remarkable record.

If I can run off a few statistics: we have seen \$2 trillion in economic growth, during the longest economic expansion in American history; the creation of nearly 21 million new jobs; a

\$400 billion expansion in our manufacturing industry; wages for non-supervisory workers up 6.5%; and broadly shared benefits, with poverty rates at the lowest levels since 1979, and unemployment at record lows for women, African-Americans and Hispanics. And just as important as these positive figures is what Arthur Conan Doyle in one of his Sherlock Holmes stories called “the dog that didn’t bark.”

That is, in the Asian financial crisis of 1997-99, with 40% of the world in recession and five major Asian economies contracting by 5% or more, the world faced a crisis unlike any since that which sparked the great Depression in the 1930s. The temptations to open a cycle of protection and retaliation like of the 1930s were equally great. Instead, WTO members generally remained true to their commitments; affected nations had the access to markets necessary for a speedy recovery; and the political strife that can erupt in economic crisis never emerged.

This is a remarkable tribute to the work of the past seven years, and the foundation of the past fifty as well: the world in the 1990s passed a test it failed sixty years earlier. And if the GATT founders were here to see the results of their work, they could be forgiven for taking considerable pride in it.

CIVIL SOCIETY CONCERNS

But with this accomplishment come new challenges. In particular, the growing concerns of civil society about the world economy, and the WTO’s responsibility to develop means to address these concerns, are now central.

In his essay “The Two Cultures,” the British author and physicist C. P. Snow wrote of his surprise at how little his literary and scientific friends had in common: those who did research had read no Shakespeare; those who wrote could not identify the Second Law of Thermodynamics. As Snow wrote:

“The clashing point of two subjects, two disciplines, two cultures ought to produce creative chances... The chances are there now. But they are there as it were in a vacuum, because those in the two cultures don’t talk to each other.”

That is not so far from the divisions which confront us today on the world economy. One group of people points to its blessings: the sharp increases in world per capita income, the more rapid growth and technological progress; rising literacy rates, growing life expectancy and falling infant mortality rates in virtually all nations that participate in trade.

But another points to questions that concern all of us: the 250 million children working overseas today, tens of millions of them in exploitive conditions up to and including slavery; growing threats to fisheries, biodiversity, the climate and other environmental resources; and the fact that less-skilled and less-educated Americans and others are struggling in an economic golden age.

THE ROLE OF THE WTO

Neither of these views is entirely wrong; both must be respected and addressed if we are to bring the work of the past fifty years successfully into a new century.

1. Quality of Life

And as we approach the task, we can draw important lessons from our experience at home.

Since the last time our unemployment rate touched 4%, in January of 1970, our economy has grown from \$3.7 to \$9.2 trillion, manufacturing output nearly tripled, and 50 million men and women joined the work-force. At the same time, the percentage of our rivers and streams fit for fishing and swimming doubled; the number of citizens living in cities with unhealthy air fell by half; many endangered or threatened species, including the bald eagle, are recovering; we created modern consumer safety laws and key regulatory policies; and the number of workplace deaths fell 60%.

More recently, as our economy opened further with the trade agreements of the 1990s, we also wrote a stronger Safe Drinking Water Act, strengthened clean air standards and protection of wild lands; passed the Family and Medical Leave Act; and raised the minimum wage. And despite fears that a more open world would reward countries with lower wages or weaker labor and environmental standards, America's share of world foreign direct investment rose sharply, with foreign countries investing well over \$500 billion in America between 1994 and 1998.

There is absolutely no reason the world economy of the next decades cannot see the same combination of growth, better environmental protection, safer factories, stronger labor protection, and job creation. While the principal driving forces for these changes are, of course, domestic policies, the trading system also has a role to play.

2. Environmental Protection

It can do more to help us protect the environment.

Here the work has begun reasonably well. The WTO already cites sustainable development as a fundamental goal of the global system. Its agreements explicitly recognize the fundamental right of all its members to set any level of environmental protection and consumer safety desired, including at higher levels than international norms. And the WTO created a Committee on Trade and the Environment in 1994.

Progress has continued ever since, with discussions in the Committee on Trade and the Environment; last year's convening of a first-ever WTO High Level Symposium on Trade and Environment in Geneva; and the encouragement of closer collaboration between the WTO and the

UN Environmental Program, which reached a cooperation framework agreement in December of 1999.

Looking ahead, we have developed a series of proposals for trade liberalization measures with direct environmental benefits, calling for the elimination of barriers to trade in environmental goods and services, of fishery subsidies which contribute to overcapacity, and of agricultural export subsidies. And this past fall we established a broad conceptual framework for systematically integrating environmental concerns into our trade negotiations. First, the President's Executive Order on the Environmental Review of Trade Agreements institutionalizes procedures for careful assessment of the environmental impacts of major, environmentally significant, trade agreements, that will ensure timely consideration of these issues in development of U.S. negotiating positions. And second, the White House Policy Declaration on Environment and Trade sets out principles on trade and the environment that will guide U.S. participation in policymaking and trade negotiations, particularly within the WTO. Application of these principles will help us ensure that trade rules remain supportive of environmental protection both at home and abroad.

3. Labor Issues

The WTO can address more effectively the concerns of many workers.

Today, in a formal sense, the WTO does not recognize that links between trade and labor exist. This is not a position which can endure: it is intellectually indefensible, and it will over time weaken public support for the trading system. Our task, therefore, is to ensure that the WTO formally recognizes the relationship between trade and labor policy and acts upon it -- recognizing the concerns developing countries have about discrimination against the poorest countries and workers; without pretending there are easy answers; but also understanding that all of us will ultimately benefit from such a discussion.

Thus we are building on the work we have done to date -- at the WTO, using the regular Trade Policy Reviews to raise concerns about labor practices; using our own domestic programs such as the Generalized System of Preferences to win specific labor reforms in countries all over the world, from Honduras, to Swaziland, and Pakistan; and at the Singapore WTO Ministerial Conference in 1996, helping the WTO for the first time recognize the importance of labor standards and cooperative work with the International Labor Organization.

We are now seeking to build upon this, through closer collaboration between the WTO and the International Labor Organization, but also creation in the WTO of a Working Group on Trade and Labor to examine, in cooperation with institutions like the World Bank and the ILO, the relationship between trade and internationally recognized core labor standards, and the best means of adjustment to heightened competition. There is no reason to fear this; there is every reason to believe honest and forthright work in this area will be of great value in its own right and for the trading system's future health and credibility.

4. Transparency and Institutional Reform

Finally, the WTO must fully reflect the basic principles of openness and transparency which are essential to the success of any institution.

As trade grows and the impacts of globalization intensify; as trade becomes more important to all nations; and as improving education and modern telecommunications open all institutions to ever greater scrutiny and debate -- the need for openness, accountability and public access is greater every year.

The WTO does not yet fully meet this test, and that is, ultimately, a challenge to its future. Thus we are working for greater transparency throughout the system, through the progressive attainment of some practical goals: ensuring rapid release of documents, enhancing the input of citizens and citizen groups; providing the opportunity to file amicus briefs in dispute settlement proceedings, and opening those proceedings to public observers. These are the measures which create the foundation of public support for the institutions of government at home; and they will do the same for the institutions of the trading system.

The WTO, with our strong encouragement, has made some substantial improvements. It now makes a majority of its documents available to the public; has reached out through public symposia on such issues as development and trade and the environment; and other means to the NGO community and by creating a Web page. This is a good start. But it is not enough, and one practice in particular is very troubling: that is, the fact that arguments before dispute panels are closed to the public.

The practice of closing arguments before dispute settlement panels may have been appropriate in an age when dispute settlement was more a negotiation than adjudication. But today, what was once privacy becomes a harmful secrecy that reduces public confidence in decisions. If people are to have faith that decisions are reasonable and fair, they have to see the process that leads to those decisions. If the WTO does not change this process, support for the WTO will erode. Misconceptions and unfounded suspicions will grow. And the future of the WTO as an institution will come into greater question.

CONCLUSION: THE WORK AHEAD

Were that to happen, it would be more than a missed opportunity; it would be a tragedy, because the policies and achievements the WTO represents are so important not only to the United States but to the world.

To turn our backs upon the work of the past half-century would be to end a march toward prosperity, rising living standards, and strengthening peace. Workers in poorer countries would lose jobs as industrial markets closed; living standards of the poor in America and other industrialized countries would fall as the price of essential goods rose; hopes of rising labor and

environmental standards would be deferred; and a crucial support for peace would weaken. But likewise, to ignore the need for reform is to put these hopes and accomplishments at risk.

Our responsibility, then, is to remain true to the generous vision of the GATT founders fifty years ago, while meeting the challenges of a new era. That is true not only for those of us now in government; but because these are profound and difficult questions, for each student here today, looking toward a career in the world of policy, advocacy and public service.

As we think about this responsibility, however, we should be optimists, remembering always that others before us have shouldered equally difficult tasks and brought them home to success.

That is America's record over fifty years of leading the world toward freedom, prosperity, the rule of law and strengthening peace. It must be our record in the decades to come.

Thank you very much.